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TO SECSTATE WASHDC 9826

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E.O. 11652: N/A

TAGS: ECRP VA

SUBJ: CERP 0003 - THIRD QUARTER, 1974 ECONOMIC REVIEW

I. GENERAL SITUATION AND TRENDS

THE THIRD QTR SAW A CONTINUATION OF THE RECESSION THAT HAS PERSISTED SINCE EARLY 1972. MANUFACTURING ACTIVITY CONTINUED TO DECLINE ALONG A BROAD FRONT. AGRICULTURAL PRODUCTION WAS GENERALLY UP, WITH SOLID PRODUCTION GAINS REGISTERED IN SUGAR, CORN AND PEANUTS, BUT RICE PRODUCTION IN THE CURRENT CROP YEAR MAY BE BELOW EARLIER EXPECTATIONS. EARLY ESTIMATES RANGED FROM A ZERO TO 5 PERCENT IMPROVEMENT OVER THE RECORD 1973-74 RICE CROP. BOTH FISHERIES AND LUMBER OUTPUT WERE STAGNANT, BECAUSE OF FALLING WORLD DEMAND AND A VARIETY OF OTHER PROBLEMS. EXPORTS CONTINUED THE DECLINE UNDERWAY SINCE APRIL. THE THIRD QTR TOTAL OF \$17 MILLION COMPARED WITH \$21.7 MILLION AND \$20.9 MILLION IN THE SECOND AND FIRST QTRS, RESPECTIVELY.

PRICE INFLATION REMAINED AT THE REDUCED LEVEL OF THE SECOND QTR. THE USAID CONSUMER INDEX ROSE ONLY 6.5 PERCENT, NOTWITHSTANDING THE 23 PERCENT PUBLIC SECTOR WAGE INCREASE EFFECTED IN JULY AND A FURTHER 8.1 PERCENT PIASTER DEVALUATION DURING THE

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QTR. THE PRINCIPAL FACTOR IN THE REDUCED INFLATION APPEARS

TO HAVE BEEN STILL LOWER LEVELS OF CONSUMPTION.

THE ADDA PROGRAM IN CENTRAL VIETNAM PICKED UP STEAM, WITH EMPLOYMENT AT 18,000 AS THE QUARTER ENDED AND EXPANSION OF OPERATIONS TO NEW AREAS IN MRS I AND II. A COMPANION PROGRAM, NAMED ADSA, GOT UNDERWAY IN SAIGON AND GIA DINH IN SEPT. SOME 6,000 WORKERS HAVE SO FAR BEEN RECRUITED.

MONETARY POLICY REMAINED QUITE RESTRICTIVE. MONEY SUPPLY DECLINED FROM THE END OF JUNE TO MID-SEPT. THERE WAS NO RISE IN CREDIT OUTSTANDING AT THE COMMERCIAL BANKS, BUT THE RESTRICTIVENESS IMPLIED BY THAT WAS OFFSET IN PART BY A CONTINUED LARGE DECLINE IN IMPORT DEPOSITS HELD BY THE BANKING SYSTEM. THERE DOES NOT YET APPEAR TO HAVE BEEN ANY SIGNIFICANT DEGREE OF INVENTORY LIQUIDATION; DEALERS FOR THE MOST PART ARE STILL HOLDING LARGE STOCKS AND ENCOUNTERING VERY SLOW SALES.

ON THE FISCAL FRONT, THE GVN HAS MADE GOOD PROGRESS TOWARD AND IMPROVED SYSTEM OF DEVELOPMENT BUDGETING. OVER-ALL EXPENDITURES IN 1974 WILL NOT EXCEED EARLIER PROJECTED LEVELS. TAX REVENUES HAVE NOT IMPROVED SINCE THE FIRST QTR, REFLECTING THE ECONOMIC RECESSION AND EROSION OF THE TAX BASE. DGT REVENUES FOR THE PERIOD JAN-SEPT 74 AS A WHOLE ARE UNCHANGED IN REAL TERMS FROM THE SAME PERIOD OF 73.

THE BALANCE OF PAYMENTS REMAINED IN SURPLUS, WITH EXCHANGE RESERVES UP \$25 MILLION OVER THE 73 YEAR-END. THE GVN RECEIVED ANOTHER \$30 MILLION IN SIGNATURE BONUSES FOR OIL CONCESSIONS IN JULY, WHICH MORE THAN ACCOUNTED FOR THE RISE. HOWEVER, A DRASTIC REDUCTION IN GVN IMPORTS HAS BEEN THE PRINCIPAL FACTOR IN THE DIFFERENCE BETWEEN EARLIER PROJECTIONS OF A SUBSTANTIAL RESERVE DRAWDOWN AND ACTUAL RESULTS.

CONGRESS FAILED TO PASS AN AID BILL AND VIETNAM WILL BE ON A CONTINUING RES BASIS AT LEAST UNTIL CONGRESS HAS RECONVENED IN NOV, AND MORE LIKELY UNTIL EARLY 75. ASSUMING ONLY THE \$350 MILLION CRA LEVEL IS VOTED, IT WILL PROVIDE ABOUT 30 PERCENT LESS REAL AID THAN IN 74, DOWN \$46 MILLION FROM THE COMBINED NOA AND DL FUNDING AND DOWN THE EQUIVALENT OF ANOTHER \$70 MILLION BECAUSE OF HIGHER IMPORT PRICES. ON THE OTHER DONOR AID FRONT, A LIMITED OFFICIAL USE

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DM 49 MILLION LOAN AGREEMENT WAS SIGNED WITH THE GERMAN GOVT IN JULY.

OIL TOOK CENTER STAGE IN THE PRIVATE INVESTMENT AREA. AT THIS WRITING PECTEN-VEITNAM'S SECOND DRILLING ATTEMPT HAS REACHED 13,000 FEET REPORTEDLY WITH ENCOURAGING INDICATIONS. ALSO, DURING THE QTR, OPIC INVESTMENT COVERAGE WAS REINSTATED FOR VIETNAM. SOME 12 INVESTMENT APPLICATIONS ARE CURRENTLY PENDING.

II. INFLATION AND BLACK MARKET ACTIVITY

A. INFLATION

PRICE INFLATION DURING JULY-SEPT REMAINED AT THE MUCH REDUCED RATE OF THE SECOND QTR. A MODERATE INITIAL IMPACT FROM THE 23 PERCENT PUBLIC SECTOR PAY INCREASE IN JULY (RETROACTIVE TO JUNE 1) HAD RUN ITS COURSE BY MID-AUG, AND PRICES ACTUALLY DECLINED SLIGHTLY IN SEPT. FOR THE QTR AS A WHOLE THE USAID INDEX ROSE 6.5 PERCENT, COMPARED WITH 6.3 PERCENT IN THE SECOND QTR. THE INCREASE FOR THE PERIOD JAN-SEPT WAS 37 PERCENT. FOOD PRICES ROSE 9.8 PERCENT DURING THE QTR AND NON-FFOD PRICES ONLY 2.2 PERCENT. RICE PRICES ROSE FROM ZERO TO 5 PERCENT, DEPENDING ON GRADE. RELATIVE STABILITY OF THE RICE MARKET WAS DUE IN PART TO RENEWED PUBLIC SALES OF RICE BY THE GVN. THE NATIONAL FOOD AGENCY (NFA) SOLD SOME 47,300 MT OF RICE TO THE GENERAL PUBLIC DURING THE QUARTER.

THE WELCOME REDUCTION IN THE RATE OF INFLATION COULD BE ATTRIBUTED MAINLY TO REDUCED CONSUMER PURCHASING POWER AND LOWERED DEMAND, AS REFLECTED IN THE GENERALLY DECLINING SALES REPORTED IN SECTION III B. DECLINING COMSUMPTION HAS BY ALL ACCOUNTS EXTENDED TO BASIC FOODSTUFFS, AS WELL AS LUXURY FOODS AND NON-FOOD ITEMS. A REDUCTION IN THE RATE OF INCREASE OF IMPORTED GOODS PRICES HAS ALSO BEEN A FACTOR, ALTHOUGH IMPORTED GOODS PRICES DID RISE BY SOME 8.8 PERCENT (USAID INDEX) DURING THE QTR. THERE WERE FOUR PIASTER DEVALUATIONS, TOTALING 8.1 PERCENT, DURING THE QTR, BRINGING THE RATE FROM 620 TO 670. FINALLY, THE RELATIVELY LOW RATE OF MONETARY INCREASE (MI UP ONLY 11.3 PERCENT FOR THE YEAR THROUGH AUG) HAS ACTED TO RESTRAIN PRICES. CERTAINLY, SUCH INFLATION AS HAS OCCURRED CANNOT BE SAID TO BE FROM EXCESSIVE DEMAND.

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B. BLACK MARKET ACTIVITY

BLACK MARKET CURRENCY RATES HELD WITHIN A 2 TO 5 PERCENT PREMIUM OVER THE OFFICIAL EXCHANGE RATE FROM EARLY JUNE TO MID-AUGUST, REFLECTING THE GVN'S ECONOMIC REFORM PACKAGE OF JUL 1 AND RELATED RUMORS, TOGETHER WITH A PROLONGED PERIOD WITHOUT A DEVALUATION -- FROM APR 24 TO JUL 5. THE HIGHEST PREMIUM REACHED WAS 5.1 PERCENT ON JUL 15, WITH THE EXCHANGE RATE AT VN\$630:\$US 1 AND \$100 GREEN QUOTED AT 662:1. THE PREMIUM DECLINED RAPIDLY FOLLOWING THE SECOND DEVALUATION OF THE MONTH ON JUL 19 AND HAD DISAPPEARED ENTIRELY BY AUG 19. THE CONTINUED ABSENCE OF A BLACK MARKET CURRENCY PREMIUM HAS OCCURRED DESPITE THE MANY BUSINESS UNCERTAINTIES AND -- MORE RECENTLY -- THE BANNING OF MOST LESS ESSENTIAL IMPORTS ON JUL 1.

GOLD PRICES ROSE ONLY SLIGHTLY IN PIASTER TERMS OVER THE COURSE OF THE QUARTER AND DECLINED IN DOLLAR TERMS -- FROM \$145.02 AN OUNCE ON JUL 1 THE \$136.05 ON SEP 30. THE SAIGON GOLD PRICE MADE ONE RARE MOVE TO A SMALL PREMIUM ON THE HONG KONG PRICE IN MID-JUL, BUT WAS BACK TO AN 8 PERCENT DISCOUNT BY THE END OF THE QUARTER.

III. ECONOMIC ACTIVITY

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A. IMPORT DEMAND

IMPORT DEMAND ROSE SLIGHTLY FROM THE EXTREMELY LOW SECOND QUARTER LEVEL, BUT REMAINED AT ABOUT HALF THE 1973 RATE. THE INCREASE FELL HEAVILY ON THIRD COUNTRY -- FRENCH AND JAPANESE -- CREDITS. FOR THE REST, A CONTINUED DECLINE IN CIP GENERAL LICENSING MORE THAN OFFSET A SLIGHT PICKUP IN GVN LETTER OF CREDIT OPENINGS:

LICENSING (L/C OPENINGS), 1973-74
(MONTHLY RATES - \$ MILLIONS)

1974

1973 JAN-MAR APR-JUN JUL-SEP

GVN (L/C'S) 24.2 15.5 8.2 9.4

CIP, OTHER THAN POL
AND FERTILIZER 18.4 22.6 9.2 5.3

3RD COUNTRY - - 1.8 7.4

TOTAL, GENERAL

LICENSING 42.6 38.1 19.2 22.1

B. MANUFACTURING

AVAILABLE DATA INDICATE A CONTINUED SLACKENING IN MANUFACTURING OUTPUT DURING THE THIRD QUARTER. USAID'S INDEX OF MANUFACTURING ACTIVITY, MEASURING OUTPUT IN TEN INDUSTRIES, DECLINED FROM A SECOND QUARTER AVERAGE OF 75 (FOURTH QUARTER, 1971 - 100) TO 68 IN JULY AND A PRELIMINARY READING (BASED ON 88 PERCENT OF THE TOTAL INDEX) OF 63 IN AUGUST. THE JUL FIGURE EQUALED THE LOWEST MONTHLY READING (ALSO RECORDED IN JAN 1974) SINCE 1971, THE FIRST YEAR FOR WHICH THESE DATA HAVE BEEN COMPILED.

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MOST OF THE SHARP DROP IN JUL AND AUG COULD BE ATTRIBUTED TO THE COMPLETE HALT IN SUGAR REFINING BEGINNING AT THE OUTSET OF JUL. WITH SUGAR OMITTED, THE INDEX STOOD AT 72 IN BOTH JUL AND AUG (PRELIMINARY), EQUAL TO THE JUN LEVEL, BUT 4 PERCENT BELOW THE SECOND QUARTER AVERAGE. INDUSTRIES SHOWING CLEAR DECLINES IN JUL AND AUG WERE CIGARETTES, TEXTILES (BOTH YARN AND FABRICS), PAPER, AND, OF COURSE, SUGAR. BEER, SOFT DRINKS, GLASS, AND CEMENT REMAINED AT ABOUT THEIR EARLIER 1974 LEVELS. ONLY NUOC MAM APPEARED TO BE DOING BETTER. OF THE TEN INDUSTRIES, ONLY THREE -- CIGARETTES, CEMENT, AND PAPER -- SHOWED HIGHER OUTPUT FOR THE JAN-AUG PERIOD AS A WHOLE THAN IN JAN-AUG 1973, BUT TWO OF THESE READINGS WERE SUSPECT. CEMENT PRODUCTION WAS UP 17.5 PERCENT DURING JAN-AUG, BUT THE YEAR-TO-YEAR COMPARISON INCLUDED A TWO-MONTH PERIOD IN 1973 WHEN THE HA TIEN PLANT WAS LARGELY CLOSED FOR REPAIRS. THE DATA ON CIGARETTE PRODUCTION -- UP 9

PERCENT DURING JAN-AUG -- RAN COUNTER TO SALES FIGURES SHOWING AN 11 PERCENT DECLINE FROM 1973 LEVELS. THE REMAINING INDUSTRIES SHOWED DECLINES OF 18 PERCENT IN COTTON FABRICS, 28 PERCENT IN COTTON YARN, 46 PERCENT IN SOFT DRINKS, AND 48 PERCENT IN GLASS. THE COMPOSITE INDEX FOR JAN -JUL WAS 22 PERCENT DOWN ON JAN-JUL 1973.

THESE DATA TEND TO BEAR OUT REPORTS FROM BUSINESSMEN AND BANKERS TO THE EFFECT THAT THE PROLONGED DECLINE HAS YET TO BOTTOM OUT. TEXTILE FIRMS ARE GENERALLY ON A ONE-SHIFT BASIS AND BOTH PRODUCTION AND SALES CONTINUE TO DECLINE. AMONG INDUSTRIES NOT INCLUDED IN THE USAID INDEX, STEEL PRODUCERS ARE OPERATING FAR BELOW CAPACITY, WITH EMPLOYMENT DOWN 25 PERCENT FROM LAST YEAR. CITROEN HAD TO DISCHARGE TWO-THIRDS OF ITS 400 EMPLOYEES IN JUL AND THE MATCH CO. -- BESET BY COMPETITION FROM SMUGGLING -- CLOSED TEMPORARILY AND REOPENED AFTER DISMISSING 115 OF ITS 300 EMPLOYEES. OVERALL, IT IS MORE THAN LIKELY THAT THE MANUFACTURING SECTOR WAS RESPONSIBLE FOR A CONTINUED RISE IN UNEMPLOYMENT DURING THE QUARTER. AS HAS BEEN THE CASE PREVIOUSLY, BRIGHTEST SPOTS IN THIS GENERALLY GRIM PICTURE CAN BE FOUND IN EXPORT RELATED ACTIVITIES, E.G., CERTAIN SECTORS OF THE GARMENT INDUSTRY, AN INCREASING NUMBER OF HANDICRAFT EXPORTERS AND SOME LUMBER PROCESSORS, INCLUDING FURNITURE. SOME OF THESE FIRMS ARE OPERATING PROFITABLY EVEN AS EXPORTERS OF BASIC COMMODITIES -- RUBBER, LIMITED OFFICIAL USE

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SHRIMP, AND LOGS -- ARE BESET BY INCREASING DIFFICULTIES OF BOTH EXTERNAL AND INTERNAL ORIGIN (SEE SECTION III D BELOW).

LOW PURCHASING POWER, WITH CONSEQUENT REDUCED DEMAND, IS THE MOST OFTEN HEARD EXPLANATION FOR THE CONTINUED SLUMP. THIS FACTOR CAN BE SEEN CLEARLY IN REDUCED DEMAND FOR CONSUMER GOODS, I.E.: SOFT DRINK SALES, OFF NEARLY 50 PERCENT FROM 1973; MILK SALES, OFF 75 PERCENT FROM 1971; AND POL SALES,

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OFF 30 PERCENT FROM LAST YEAR. OF COURSE, DRASTICALLY HIGHER
PRICES HAVE HAD MUCH TO DO WITH THE DECLINE IN POL SALES.

C. AGRICULTURE, FISHING, AND FORESTRY

RICE IS COVERED SEPARATELY AS SECTION IV. GENERALLY GOOD
PROGRESS WAS REPORTED IN OTHER AREAS OF AGRICULTURE. LOAN DIS-
BURSEMENTS BY THE AGRICULTURAL DEVELOPMENT BANK AND PRIVATE RURAL
BANKS DURING JAN-JULY WERE 79 PERCENT AHEAD OF THE 73
LEVEL, REFLECTING THE GVN'S PRIORITY EMPHASIS ON FARM CREDIT.
WHILE PRECISE OUTPUT DATA ARE NOT AVAILABLE, CROP GAINS ARE
BELIEVED TO BE TAKING PLACE IN SUGAR, CORN, PEASNUTS, AND MANIOC.
SUGAR PRODUCTION, STIMULATED BY THE HIGH PRICE AND PROFIT
SITUATION IN THAT CROP, IS EXPECTED TO EXCEED 60,000 MT THIS
YEAR, WHICH WOULD COMPARE WITH LESS THAN 5,000 MT AS RECENTLY AS
1970. CORN PRODUCTION WILL ALSO EXCEED 60,000 MT IN 74, UP
FROM 50,000 MT IN 73 AND 35,000 MT IN 72. EXPANDING PEANUT
PRODUCTION HAS ENABLED THE RESUMPTION OF OPERATIONS BY TWO OF
THE LARGER VEGETABLE OIL PROCESSORS, NAKYDACO AND TUONG AN.

FISHERIES OUTPUT APPEARS TO HAVE BEEN STAGNANT WITH
SCATTERED BRIGHT SPOTS. HIGH FUEL COSTS OPERATING RESTRICTIONS,
AND DECLINING WORLD DEMAND ARE ALL FACTORS. THE IMPORTANT FROZEN
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SHRIMP INDUSTRY IS OPERATING FAR BELOW CAPACITY, AND THE FISHMEAL
INDUSTRY IS ALL BUT SHUT DOWN. INCOMAP IS THE ONLY FISHMEAL
PLANT OUT OF NINE OPERATING, AND NOT PROFITABLY AT THAT. THE
CURRENT BRIGHT SPOT IS LOBSTERING, WHICH IS ATTRACTING A RUSH OF
NEW INVESTMENT, ESPECIALLY AROUND NHA TRANG.

RECENT DATA ON LUMBER PRODUCTION ARE NOT AVAILABLE, BUT
ACCORDING TO REPORTS OPERATIONS WERE AT VERY LOW LEVELS DURING THE

QUARTER. PLUMMETING WORLD PRICES AND DEMAND, HIGH COSTS, SECURITY PROBLEMS, AND GOVT RESTRICTIONS ARE ALL CITED AS FACTORS.

RUBBER PRODUCTION DURING JAN-AUG WAS 8.5 PERCENT ABOVE THE CORRESPONDING 1973 PERIOD. YEAR-TO-YEAR GAINS HAVE HELD AT CLOSE TO THIS RATE DESPITE DECLINING WORLD PRICES AND SECURITY PROBLEMS IN SOME AREAS.

D. EXPORTS

EXPORT EARNINGS CONTINUED THE DISAPPOINTING PERFORMANCE OF THE SECOND QTR. EARNINGS FOR THE PERIOD JAN-SEPT TOTALED \$58.1 MILLION, UP 39 PERCENT FROM THE CORRESPONDING 73 PERIOD. HOWEVER, THE EARNINGS TREND HAS BEEN STEADILY DOWNWARD FROM A PEAK OF \$7.8 MILLION IN APRIL TO \$4.8 MILLION IN SEPT. THE DECLINE OF THE PAST SEVERAL MONTHS IS ATTRIBUTABLE MAINLY TO FALLING PRICES AND SLACKENING DEMAND FOR VIETNAM'S PRINCIPAL EXPORT COMMODITIES, FROZEN SHRIMP, LOGS, AND RUBBER. AS OF AUG, USAID'S EXPORT COMMODITY PRICE INDEX WAS DOWN 13 PERCENT FROM THE FIRST QTR, 74 AVERAGE. SUPPLY AND COST PROBLEMS CONTINUE AS DESCRIBED IN EARLIER REPORTS.

THERE HAVE BEEN RECENT SIGNS OF PROGRESS IN SOLVING AT LEAST SOME OF THE SUPPLY PROBLEMS. A NEW AND IMPROVED PERMIT SYSTEM FOR LUMBER RIGHTS WENT INTO EFFECT IN JULY. MEANWHILE, CERTAIN MINOR EXPORT INDUSTRIES HAVE BEEN MAKING GOOD GAINS. THESE INCLUDE GARMENT MANUFACTURING, WOOD PROCESSING, AND HANDICRAFTS. EXPORTS OF MINOR PRODUCTS AS A GROUP -- THAT IS, EXCLUDING RUBBER, FISHERIES PRODUCTS, LOGS, AND SCRAP -- HAVE CONTINUED TO RISE, AVERAGING \$1.7 MILLION A MONTH DURING JULY AND AUG AS COMPARED WITH \$1.3 MILLION MONTHLY IN THE FIRST QTR.

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A FINAL NOTEWORTHY DEVELOPMENT WAS THE OFFICIAL LAUNCHING OF THE FIRST EXPORT PROCESSING ZONE IN SAIGON IN SEPT. FOUR MANUFACTURING COMPANIES ARE NOW ESTABLISHING OPERATIONS IN THE ZONE, AND SEVERAL OTHERS ARE PREPARING TO ENTER.

E. INVESTMENT

COMMERCIAL BAND CREDIT HAS EASED CONSIDERABLY SINCE THE FIRST QTR(SEE SECTION V.B.), BUT WHILE HELPING TO AVERT MASS INVENTORY LIQUIDATION AND BANKRUPTCIES, IT HAS YET HAD LITTLE VISIBLE IMPACT ON INVESTMENT AND PRODUCTION. LOAN ACTIVITY BY THE DEVELOPMENT BANKS, ON THE OTHER HAND, HAS CONTINUED TO RISE. NEW LOAN APPROVALS DURING JAN-JULY WERE 58 PERCENT AND DISBURSEMENTS 57 PERCENT AHEAD OF 73 LEVELS. TYPICALLY, THE

PROJECTS ARE SMALL AND INVOLVE LOCAL CAPITAL. WHILE THESE ACTIVITIES PROVIDE ENCOURAGING SIGNS OF CONTINUED INVESTOR INTEREST, THEIR IMPACT ON THE ECONOMY FOR THE MOST PARTY HAS YET TO BE FELT.

IV. RICE AND FERTILIZER

PRELIMINARY INDICATIONS FROM THE EARLY MIRACLE RICE HARVEST, NOW COMING IN FROM THE DELTA, ARE THAT DESPITE A 10 PERCENT INCREASE IN HECTAREAGE, THIS PORTION OF THE 1974-75 HARVEST WILL BE AT ABOUT THE SAME LEVEL AS LAST YEAR'S CROP. AN EARLY SEASON DROUGHT, SOME LATE SEASON FLOODING, AND A REDUCTION IN FERTILIZER USAGE ARE CITED TO EXPLAIN THE DECLINE IN YIELD. CENTRAL VIETNAM, HOWEVER, IS GENERALLY REPORTING AN EARLY HARVEST SOMEWHAT BETTER THAN LAST YEAR. AGRICULTURAL TECHNICIANS ARE HOPING FOR A NATIONWIDE CROP SOME 5 PERCENT BETTER THAN 1973-74, BUT LESS THAN OPTIMUM WEATHER CONDITIONS AND INCREASED MILITARY ACTIVITY THROUGHOUT THE COUNTRY COULD CUT RESULTS BELOW EXPECTATIONS.

RECORDED DELTA DELIVERIES DURING THE THIRD QUARTER WERE 66,500 MT VERSUS 135,000 MT IN THE SECOND QTR AND 205,000 MT IN THE FIRST QTR

REPORTED DELIVERIES MAY HAVE BEEN AUGMENTED MORE THAN NORMALLY BY UNREPORTED SHIPMENTS. HOWEVER, WHATEVER THE EXTENT OF THE "TRUE" DECLINE IN DELTA DELIVERIES, IT WAS CERTAINLY MORE THAN LIMITED OFFICIAL USE

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SEASONAL, AND REFLECTED PLENTIFUL SUPPLIES IN DEFICIT AREA MARKETS AND A DECLINE IN APPARENT CONSUMPTION AS A CONSEQUENCE OF THE ECONOMIC DECLINE.

AT THE BEGINNING OF JULY THE GVN INCREASED THE OFFICIAL SELLING PRICE OF RICE BY 20 PIASTERS(12 PERCENT) AND RAISED PADDY PRICES EQUIVALENTLY. PRODUCTION INCENTIVES WERE INCREASED BY THE IMPLEMENTATION OF A FERTILIZER SUBSIDY IN SEPT THAT DROPPED

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THE WHOLESALE PRICE OF UREA FROM 204 TO 165 PIASTERS A KILO. PADDY PRICES MOVED DOWNWARD SOMEWHAT IN SEPTEMBER A RESULT AT LEAST IN PART OF THE GVN'S USE OF NFA STOCKS TO STABILIZE RETAIL RICE PRICES. SINCE JUNE, SOME 47,300 MT HAVE BEEN SOLD TO THE GENERAL PUBLIC OR TO CENTRAL VIET NAM MARKETS FOR RESALE AT CONTROLLED PRICES. RETAIL RICE PRICES ROSE DURING THE QUARTER BY ABOUT 5 PERCENT FOR MEDIUM GRADE DOMESTIC VARIETIES, AND ACTUALLY DECLINED BY ABOUT 1 PERCENT FOR IMPORTED U.S. RICE. PADDY PRICES, MEANWHILE, ROSE BY ABOUT 7 PERCENT FOR THE QUARTER AS A WHOLE.

TOTAL NFA STOCKS DECLINED FROM 302,300 MT JULY 1 TO ABOUT 240,000 MT ON SEP 30, INCLUDING 206,000 MT IMPORTS AND 34,000 MT OF DOMESTIC RICE. THE GVN HAS AGREED TO A NEW RICE LOAN OF 40,000 MT TO CAMBODIA. REPAYMENT WILL BE FROM THE CURRENT U.S. CROP.

OVER-ALL FERTILIZER SALES FOR THE CROP YEAR THUS FAR ARE REPORTEDLY OFF ABOUT 20 TO 30 PERCENT, BUT SHOULD STABILIZE WITH IMPLEMENTATION OF THE PRICE SUBSIDY IN SEPTEMBER. PRICES WERE MOVING DOWNWARD BY THE END OF SEPTEMBER INFLUENCED BY NEW ARRIVALS OF ABOUT 42,000 MT IN AUG AND SEPT AS WELL AS THE SUBSIDY. LIMITED OFFICIAL USE

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ALLOWING FOR AN ANTICIPATED LAST QUARTER USE OF 50,000 MT PLUS FIRMLY PROGRAMMED ARRIVALS OF 180,000 MT NEW STOCKS -- (OF WHICH AWARDS FOR 112,000 MT WORTH \$49.9 MILLION WERE ISSUED IN THE THIRD QUARTER), END-YEAR CARRYOVER STOCKS WILL PROBABLY BE ABOUT 222,000 MT. VIET NAM APPEARS TO BE ASSURED OF ADEQUATE STOCKS FOR THIS YEAR'S UPCOMING DRY SEASON AND MOST OF NEXT YEAR'S WET SEASON. RECOMMENDATIONS TO BUY AT LEAST 140,000 MT MORE SUBJECT TO AVAILABILITY OF FUNDS ARE DESIGNED TO GUARANTEE ADEQUATE

STOCKS THROUGH THE CY 1975 DRY SEASON.

V. MONETARY DEVELOPMENTS

A. MONEY SUPPLY

DURING THE TWO MONTHS OF JUL AND AUG MONEY SUPPLY (MI) DECLINED BY 5 PERCENT, OR BY 2 PERCENT IF THE DEFINITION OF THE TERM IS EXPANDED TO INCLUDE SAVINGS DEPOSITS. MI DECLINED A FURTHER VN\$15 BILLION DURING SEP 1-14, BUT SINCE THIS PERIOD PRECEDES THE MONTHLY WAGE DISBURSEMENTS TO PUBLIC SECTOR EMPLOYEES AND NORMALLY SHOWS A DECLINE, THE DATA BELOW SUMMARIZE DEVELOPMENTS ONLY AS FAR AS AUG 31:

INC. IN MONEY SUPPLY, JAN 1-AUG 1

	MI (CURRENCY PLUS DEMAND DEPOSITS)		MI PLUS SAVINGS DEPOSITS	
	VN\$ BIL	PERCENT	VN\$ BIL	PERCENT
JAN 1-MAR 31	22.6	8.4	34.4	9.5
APR 1-JUN 30	22.7	7.8	46.1	11.7
JUL 1-AUG 31	(15.0)	(4.8)	(6.9)	(1.6)

YEAR TO AUG 31	30.3	11.3	73.6	20.4

RESTATED AS ANNUAL RATES THE INCREASES DURING JAN-AUG WERE : MI, 17.4 PERCENT MI PLUS SAVINGS DEPOSITS, 32.1 PERCENT. IT IS LIKELY THAT THE EVENTUAL FULL-YEAR INCREASES WILL BE SOMEWHAT GREATER THAN THESE FIGURES SUGGEST, INASMUCH AS GVN DISBURSEMENTS ARE NORMALLY HIGHER AT YEAR-END. THE RATE OF CREDIT EXPANSION MAY ALSO RISE.

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THE DECLINE IN MONEY SUPPLY DURING THE THIRD QUARTER HAS BEEN REMARKABLE, ESPECIALLY SO CONSIDERING THE PUBLIC SECTOR PAY INCREASE IN JULY. THE MOST LIKELY EXPLANATION IS A LOW RATE OF NON-WAGE GVN DISBURSEMENTS ON WHICH RECENT DATA ARE LACKING. ONE CONTRIBUTING FACTOR HAS BEEN THE RICE OPERATIONS OF THE NATIONAL FOOD ADMINISTRATION. WITH SALES FROM STOCKS EXCEEDING DISBURSEMENTS BY SOME 40,000 MT DURING THIS PERIOD, THE NET CONTRACTIONARY EFFECT OF THESE OPERATIONS WAS IN THE AREA OF VN\$7 BILLION. ANOTHER FACTOR HAS BEEN THE INCREASED SALES OF TREASURY BONDS TO BANKS AND TO THE PUBLIC, AS DISCUSSED BELOW.

B. BANK CREDIT

COMMERCIAL BANK CREDIT OUTSTANDING WAS UNCHANGED FROM THE END OF JUNE TO MID-SEPT IN APPARENT CONTINUATION OF THE

TIGHT MONEY POLICY UNDERWAY SINCE THE FIRST QUARTER. HOWEVER, AFTER ALLOWANCE IS MADE FOR A SHARP DECLINE IN IMPORT ADVANCE DEPOSITS (BOTH OFFICIALLY REQUIRED AND AS REQUIRED BY THE BANKS), IT CAN BE SEEN THAT THE NET LIQUIDITY POSITION OF BANK BORROWERS WAS MUCH EASED DURING THIS PERIOD.

COMMERCIAL BANK CREDIT, 1974

	1973	MAR	JUNE	AUG	SEP	14
VN\$ BILLIONS (END OF PERIOD)						
CREDIT OUTSTANDING		149.7	173.9	178.3	176.1	178.5
LESS: IMPORT DEPOSITS		-88.6	-98.5	-74.3	-54.5	NA
NET BANK CREDIT		61.1	75.4	104.0	121.6	

PERCENT INCREASES 12/73- 3/74- 6/74- 1-8/74

3/74	6/74	8/74
-----	-----	-----

CREDIT OUTSTANDING	16.2	2.5	(2.3)	17.6
NET BANK CREDIT	23.4	37.9	16.9	99.0
USAID RETAIL PRICE INDEX	20.8	6.3	5.9	36.1

THUS, IN ALL THREE QUARTERS OF 1974 NET LIQUIDITY HAS INCREASED IN EXCESS OF THE RATE OF PRICE INFLATION -- SUBSTANTIALLY LIMITED OFFICIAL USE

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SO SINCE MARCH. THIS DEVELOPMENT WHICH HAS PROBABLY BEEN MORE A MATTER OF CHANGES IN THE RULES GOVERNING ADVANCE DEPOSITS (NOTABLY THE DROPPING OF THE 30 PERCENT ADVANCE DEPOSIT REQUIREMENT ON CIP IN MARCH, AND THE PROGRESSIVE REDUCTION IN IMPORTS OF LUXURY GOODS) THAN CONSCIOUS POLICY HAS PROBABLY AVERTED MASS INVENTORY LIQUIDATION AND BANKRUPTCIES IN THE CASES OF NUMEROUS FIRMS WITH HEAVY STOCKS AND SLOW SALES, EVEN AS CREDIT FOR NEW VENTURES HAS BEEN DIFFICULT TO OBTAIN. THE VIRTUAL STAGANATION IN NEW LENDING HAS NOT BEEN A RESULT OF A TIGHT MONETARY POLICY, AS BANKS IN GENERAL HAVE BEEN WELL BELOW THEIR LOAN: DEPOSIT RATION CELINGS. RATHER, IT HAS BEEN A MATTER OF THE RELATIVE ATTRACTIVENESS OF TREASURY BILLS UNDER PRESENT UNCERTAIN BUSINESS CONDITIONS.

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TREASURY BILL HOLDINGS OF THE BANKS ROSE BY ANOTHER VN\$10 BILLION DURING JULY AND AUG, BRINGING THE INCREASE FOR THE YEAR TO DATE TO VN\$38.5 BILLION.

C. SAVINGS

SAVINGS AND TIME DEPOSITS ROSE BY VN\$14.4 BILLION DURING JULY AND AUG. THE MONTHLY RATE OF INCREASE WAS ABOUT THE SAME AS DURING JAN-JUNE IN ABSOLUTE TERMS, BUT SLIGHTLY LOWER IN PERCENTAGE TERMS. TERM DEPOSITS ACCOUNTED FOR NEARLY HALF OF THE JULY-AUG INCREASE, WHEREAS THEY HAD ACCOUNTED FOR ONLY 17 PERCENT OF THE EARLIER RISE.

D. INTEREST RATES

ON JULY 4 COMMERCIAL BANK DEPOSIT RATES WERE INCREASED BY 2 PERCENT ON TIME AND SAVINGS DEPOSITS. THIS WAS ACCOMPANIED BY A TWO PERCENT INCREASE IN THE TREASURY BILL RATE AS WELL AS THE DEPOSIT RATES AT THE AGRICULTURAL DEVELOPMENT BANK AND ITS AFFILIATED PRIVATE RURAL BANKS. THE INCREASE MOVED TIME DEPOSIT RATES UP TO A RANGE OF 19 TO 26 PERCENT FOR ONE TO 12 MONTH DEPOSITS RESPECTIVELY. THE INCREASE IN THE DEPOSIT RATES PUSHED LENDING RATES UP TO A RANGE OF 28.6 PERCENT TO 36.3 PERCENT,

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INCLUDING BANK COMMISSIONS AND THE VAT. COMMERCIAL BANKERS ESTIMATE THAT MOST COMMERCIAL CREDIT COSTS THE BORROWER 34 PERCENT.

E. OTHER BANKING DEVELOPMENTS

THE THIRD QTR SAW THE SECOND BANK CLOSING. THE NAM VIET BANK, WHICH RANKED IN THE MIDDLE THIRD OF COMMERCIAL BANKS IN TERMS OF SIZE, HAD ITS LICENSE SUSPENDED ON JULY 13 FOR REPEATED VIOLATIONS OF BANKING REGULATIONS. AS WITH THE TIN NGHIA AFFAIR, THE NATIONAL BANK STOOD BY TO ENSURE FULL PROTECTION OF DEPOSITORS.

VI. FISCAL DEVELOPMENT

A. GOVT EXPENDITURES

IN JULY, THE GVN ALLOCATED VN\$29 BILLION TO FINANCE THE FERTILIZER SUBSIDY DURING THE SECOND HALF OF 74. THE PUBLIC SECTOR PAY RAISE ANNOUNCED JULY 1 WILL COST VN\$48 BILLION DURING THE REMAINDER OF 74. THE ADDITION OF THESE TWO ITEMS WILL BRING GOVT OUTLAYS FOR THE YEAR TO ABOUT VN\$645 BILLION.

THE 1974 GOVT BUDGET GAVE AS MUCH PRIORITY TO ECONOMIC DEVELOPMENT AS WAS TYOUGH POSSIBLE UNDER GENERALLY TIGHTENED CIRCUMSTANCES. THE VN\$25 BILLION LAND CLEARING/ RESETTLEMENT PROGRAM AND ABOUT VN\$13 BILLION IN PUBLIC WORKS PROJECTS ARE MAJOR ELEMENTS. THE SUCCESSFUL EMPLOYMENT-INVESTMENT PROGRAM FOR THE DANANG AREA (ADDA) WAS EXPANDED IN SIZE AND SCOPE OF OPERATIONS, AND A COMPANION PROGRAM FOR SAIGON GOT UNDERWAY IN SEPT, BUT THE VN\$20-40 BILLION SPECIAL DEVELOPMENT PROGRAM PROPOSED EARLY IN THE YEAR WAS ABANDONED BY MID-YEAR. OVERALL, PERHAPS 8 PERCENT OF ORDINARY BUDGET EXPENDITURES THIS YEAR COULD BE CLASSIFIED AS INVESTMENT. THE NEDEF AND ADB LENDING PROGRAMS CAN BE ADDED TO THIS FIGURE, WHICH WOULD INCREASE THE PERCENTAGE TO 14.

AS THE GOVT WAS FORCED TO POSTPONE COMMITMENT OF SUBSTANTIAL DEVELOPMENT EXPENDITURES THIS YEAR, FOR LACK OF ASSISTANCE, IT SEEMED DETERMINED TO STRIKE A BETTER BALANCE BETWEEN CURRENT EXPENDITURES AND INVESTMENT IN THE 75 BUDGET. THAT DOCUMENT LIMITED OFFICIAL USE

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HAS BEEN UNDER PREPARATION FOR MORE THAN THREE MONTHS AND THE ADMINISTRATION PRESENTED IT TO THE NATIONAL ASSEMBLY IN OCT. FROM EARLY INDICATIONS, PROPOSED GVN EXPENDITURES NEXT YEAR COULD APPROACH VN\$900 BILLION, INCLUDING AT LEAST VN\$150 BILLION FOR DEVELOPMENT.

B. AGENCY FOR THE DEVELOPMENT OF THE DANANG AREA

ADDA CONTINUED TO EXPAND THE SCOPE OF ITS ACTIVITIES IN MRS I AND II DURING THE QTR. THE NUMBER EMPLOYED CLIMBED FROM 5,900 ON JULY 1 TO 18,000 AT THE END OF SEPT, WITH A

PEAK OF 22,000 IN AUG. THE PROGRAM INAUGURATED OPERATIONS IN THREE NEW AREAS DURING SEPT -- PLEIKU, DALAT, AND QUANG TIN -- AND GVN AUTHORITIES ARE CONSIDERING EXPANSION TO OTHER AREAS. THE MAJOR FOCUS OF THE PROGRAM DURING THE PAST QUARTER WAS ON IRRIGATION, WITH OVER 6,000 #3:5-43 9*)-, \$ 23,3*8553\$. COST-BENEFIT RATIOS HAVE BEEN CALCULATED FOR MANY OF THE PROJECTS AND APPEAR EXTREMELY FAVORABLE. APPROX 75 PERCENT OF THE LABORERS ARE ENGAGED IN DIGGING NEW IRRIGATION CANALS, CLEANING OLD ONES AND CONSTRUCTING NEW DAMS AND SALT WATER INTRUSION DIKES. AN EXTENSIVE REFORESTATION PROGRAM IS ALSO UNDER WAY. AT THIS POINT IN ITS DEVELOPMENT THE SHORTAGE OF CAPABLE UPPER AND MIDDLE MANAGEMENT PERSONNEL APPEARS THE MAIN OBSTACLE TO FURTHER EXPANSION.

ADDA'S EQUIVALENT FOR THE SAIGON AREA, NAMED ADSA, COMMENCED OPERATIONS ON SEPT 16, WITH AN APPROPRIATION OF ONE BILLION PIASTERS. THREE THOUSAND WORKERS WERE RECRUITED IN THE FIRST TWO WEEKS AND PUT TO WORK IN THE SAIGON/GIA DINH AREA. INITIAL PROJECTS CONSIST OF WORK REQUIRING LITTLE EXPERTISE SUCH AS STREET-CLEANING AND CLEANING OF CLOGGED DRAINAGEWAYS. A WORK FORCE OF 8-9,000 IS TENTATIVELY TARGETED FOR THE END OF THIS YEAR.

C. TAX REVENUES

TAX COLLECTIONS BY THE DIRECTORATE GENERAL OF TAXATION TOTALED VN\$189 BILLION FOR THE FIRST NINE MONTHS OF THE YEAR COMPARED TO VN\$114 BILLION IN THE SAME PERIOD OF 73. THE INCREASE, 62 PERCENT, EQUALED THE INCREASE IN CONSUMER PRICES BETWEEN THE TWO PERIODS; THUS, REVENUES WERE UNCHANGED IN REAL LIMITED OFFICIAL USE

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TERMS. THE SLACKENING IN COLLECTIONS REFLECTS MAINLY THE DECLINE IN ECONOMIC ACTIVITY AND GENERAL REDUCTION IN PURCHASING POWER. FOR EXAMPLE, WHILE INDIRECT TAXES (OMITTING THE VALUE ADDED TAX WHICH WAS IN EFFECT FOR ONLY SIX MONTHS OF 73) WERE UP 31 PERCENT FOR THE PERIOD JAN-JULY, THIS AMOUNT TRANSLATES TO A 22 PERCENT DECLINE IN REAL TERMS. THESE RESULTS ARE ASSOCIATED WITH A 28 PERCENT (AVERAGE WEIGHTED BY TAX RECEIPTS IN 1973) DECLINE IN THE SALE OF GOODS TO WHICH THOSE TAXES ARE RELATED. CORPORATE TAX COLLECTIONS HAVE DONE REASONABLY WELL BUT INDIVIDUAL INCOME TAX COLLECTIONS HAVE BEEN POOR THROUGHOUT THE YEAR.

OTHER (NON-DGT) DOMESTIC REVENUES AND IMPORT REVENUES ARE ABOUT ON TARGET AND SHOULD REACH THE EARLIER PROJECTIONS FOR 1974 OF VN\$15 BILLION AND VN\$42 BILLION, RESPECTIVELY.

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VII. IMPORT FUNDING AND BALANCE OF PAYMENTS

A. IMPORT FUNDING

1. U.S. AID - PENDING DEVELOPMENTS AFTER CONGRESS
RECONVENES IN NOV, USAID WILL OPERATE UNDER CONTINUING
RES AUTHORITY AT AN ANNUAL RATE OF ABOUT \$350 MILLION.
(IN THE FIRST QUARTER OF FY 1975, USAID RECEIVED AN ALLOTMENT
OF \$81.4 MILLION, INCLUDING \$76.4 MILLION FOR CIP.)

THE 1974-75 CRA LEVEL IMPLIES A REDUCTION IN REAL U.S.
AID OF ABOUT 30 PERCENT, DOWN \$46 MILLION FROM THE COMBINED NOA
AND DL FUNDING AND DOWN THE EQUIVALENT OF ANOTHER \$70 MILLION
BECAUSE OF HIGHER IMPORT PRICES.

AN NOA LEVEL OF \$350 MILLION (THE CRA LEVEL) WOULD
COVER ONLY THE MOST ESSENTIAL IMPORT REQUIREMENTS AND WOULD
REQUIRE THAT THE ECONOMY CONTINUE TO BE OPERATED AT THE PRESENT
DEPRESSED LEVELS, WITH LITTLE ROOM TO INCREASE INVESTMENT,
PRODUCTION, AND EMPLOYMENT. POL REIMBURSEMENTS SHOULD REACH
\$150 MILLION IN FY 1975. ALLOWING \$30 MILLION FOR TECHNICAL
ASSISTANCE, A BALANCE OF ABOUT \$170 MILLION WILL BE AVAILABLE
FOR FERTILIZER, COP GENERAL LICENSING AND HUMANITARIAN GRANTS.
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2. PL480 TITLE ONE - THE PL480 TITLE I PROGRAM WENT TO A LOAN FROM A GRANT BASIS EFFECTIVE JULY 1, 1974. THE TERMS ARE SOFE--40 YEAR REPAYMENT WITH A 10-YEAR GRACE PERIOD, AND 2 PERCENT INTEREST FOR THE FIRST 10 YEARS; WITH 3 PERCENT THEREAFTER.

THE GVN'S ORIGINAL REQUEST FOR FY75 WAS FOR A \$103 MILLION FOOD FOR PEACE PROGRAM, INCLUDING 100,000 MT OF RICE. A SUPPLEMENTAL REQUEST FOR 100,000 MRT OF ADDITIONAL RICE WAS SUBSEQUENTLY SUBMITTED. THUS FAR, THE ONLY APPROVAL UNDER THE FY 75 PROGRAM HAS BEEN FOR \$7.2 MILLION OF TOBACCO.

3. THIRD COUNTRY AID- THE SECOND MEETING OF THE PROSPECTIVE MEMBERS OF A DONOR GROUP TOOK PLACE IN PARIS ON OCT 17 AND 18 UNDER IBRD AND ADB AUSPICES IN WHICH IT WAS ESTABLISHED THAT A MEETING OF INTERESTED DONORS WITH THE GVN WOULD BE CALLED AT AN APPROPRIATE TIME IN THE FUTURE. THE MOST SIGNIFICANT NEW BILATERAL DEVELOPMENT DURING THE QTR WAS THE SIGNING OF A DM 49 MILLION LOAN AGREEMENT WITH GERMANY ON SEPT 5. OF THIS AMOUNT, DM 40 MILLION REPRESENTS NEW MONEY AND WILL BE USED ON SIX PROJECTS. UTILIZATION OF THE FRENCH (FF 50 MILLION) AND JAPANESE (Y 8.25 BILLION) CREDITS APPROVED IN FY74 GOT INTO HIGH GEAR IN THE THIRD QTR (SEE SECTION III A); BOTH THESE AND THE EARLIER \$5 MILLION TAIWAN CREDIT HAVE BY NOW BEEN LARGELY DRAWN DOWN. GVN OFFICIALS HOPE TO SECURE NEW FRENCH AND JAPANESE CREDITS IN FY75.

4. PRIVATE INVESTMENT- THE MOST NEWSWORTHY DEVELOPMENT DURING THE QTR CONCERNED OIL. PECTEN VIETNAM'S RIG ON ITS FIRST DRILLING ATTEMPT FOUND TRACES OF OIL ON AUG 28. THE FIND WAS DETERMINED NOT TO BE COMMERICALLY EXPLOITABLE AND THE RIG SUBSEQUENTLY MOVED TO A NEW LOCATION WITHIN THE SAME BLOCK. BY MID-OCT DRILLING AT THE NEW SITE HAD REACHED 13,000 FEET WITH INDICATIONS SAID TO BE ENCOURAGING.

ON AUG 28, PRES FORD SIGNED A BILL WHICH PERMITS LIMITED REACTIVATION OF OPIC INSURANCE PROGRAMS IN VIETNAM. INDIVIDUAL INVESTMENT APPROVALS WILL BE LIMEITED TO \$5 MILLION AND 20 PERCENT OF THE TOTAL RISK MUST BE PRIVATELY INSURED. AS OF THIS WRITING SOME 12 APPLICATIONS HAVE BEEN SUBMITTED TO THE OPIC LIMITED OFFICIAL USE

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BOARD.

CHAIRMAN CASEY OF THE U.S. EXPORT-IMPORT BANK VISITED VIETNAM IN SEPT. A SATELLITE EARTH STATION PROJECT

AND EXPORT PROCESSING ZONES WERE MENTIONED AS POSSIBLE CANDIDATES FOR FUTURE EXIMBANK FINANCING.

THE HUATT HOTEL PROJECT RAN INTO DIFFICULTIES WHEN THE GVN CONCLUDED THAT THE CONSTRUCTION COST IS SUBJECT TO THE 10 PERCENT VALUE ADDED TAX. THE VAT WAS ENACTED AFTER THE INVESTMENT LAW AND IS NOT, THEREFORE, AMONG THE ENUMERATED TAXES FROM WHICH APPROVED INVESTMENTS ARE EXEMPTED. THE GVN IS CURRENTLY DRAFTING A REVISION OF THE INVESTMENT LAW TO COVER THE VAT.

B. BALANCE OF PAYMENTS

FOREIGN EXCHANGE RESERVES ROSE TO \$150 MILLION BY THE END OF SEPT, A GAIN OF ALMOST \$50 MILLION SINCE JUNE. COUNTING GOLD AND SDR HOLDINGS, NBVN RESERVES WERE \$222 MILLION. THE BIGGEST RECENT BOOST TO RESERVES WAS \$30 MILLION IN SIGNATURE BONUSES PAID IN JULY BY MAJOR OIL COMPANIES FOLLOWING THE SECOND ROUND OF BIDDING FOR OFF-SHORE EXPLORATION CONCESSIONS. OTHER INVISIBLE RECEIPTS TAPERED OFF FROM THE FIRST HALF RATE, AS THE IN-FLOW OF CURRENCY NOTES, WHICH YIELDED \$37 MILLION IN JAN-JUNE, SLOWED TO A TRICKLE. NEVERTHELESS, THE INVISIBLES ACCOUNT CONTINUED TO SHOW A STRONG SURPLUS (\$7 MILLION) IN THE THIRD QTR. EXPORT EARNINGS (SEE SECTION III D), WHICH DECLINED FROM JULY TO SEPT, WERE \$17 MILLION FOR THE THRID QTR COMPARED WITH \$43 MILLION IN THE FIRST HALF. USAID REIMBURSEMENTS FOR POL ROSE TO \$30 MILLION IN THE THIRD QTR, WHILE US SECTOR PIASTER PURCHASES ADDED ANOTHER \$30 MILLION TO GVN RECEIPTS.

ON THE EXPENDITURES SIDE, GVN IMPORT PAYMENTS CONTINUED TO DECLINE -- REACHING \$45 MILLION IN THE THIRD QTR COMPARED TO \$60 AND \$56 MILLION IN THE PREVIOUS TWO QTRS. FOURTH QTR GVN PAYMENTS SHOULD BE NO HIGHER THAN \$45 MILLION, SINCE HEAVY THIRD QTR LICENSING ON JAPANESE AND FRENCH IMPORT CREDITS REDUCED DEMAND FOR GVN FINANCING OF IMPORTS. TOTAL GVN IMPORT PAYMENTS IN 74 SHOULD BE ABOUT \$205 MILLION, A SUBSTANTIAL REDUCTION FROM THE \$282 MILLION TOTAL OF 73.

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THE BALANCE OF PAYMENTS FOR THE FIRST THREE QUARTERS AND THE YEAR-END OUTLOOK ARE SUMMARIZED BELOW:

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SIMPLIFIED BALANCE OF PAYMENTS - 1974

(US\$ MILLIONS)

	JAN-SEPT	YEAREST.)	
A. RECEIPTS			
EXPORTS	58	75	
INVISIBLES	180	214	
INTEREST)	(9)	(12)	
(CURRENCY NOTES)		(44)	(46)
(OIL CO. FEES)	(30)	(30)	
(OTHER)	(97)	(126)	
PIASTER PURCHASES		79	105
POL REIMBURSEMENTS		72	105
TOTAL RECEIPTS		389	499
B. PAYMENTS			
GVN IMPORTS		162	200
AID FREIGHT		36	54
POL ADVANCES		98	135
INVISIBLES	68	85	
TOTAL PAYMENTS		364	474

C. FOREIGN RESERVES

CHANGE PLUS 25 PLUS 25

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NBVN RESERVES, END PERIOD		222	222
FOREX	(150)	(150)	
GOLD	(29)	(29)	

SDR (24) (24)
 IMF GOLD TRANCHE HH (19) (19)

C. IMPORTS

IMPORT PAYMENTS THROUGH AUG AMOUNTED TO \$620 MILLION, AS 20 PERCENT INCREASE FROM JAN-AUG 73. OF THE 74 TOTAL, \$157 MILLION CONSISTED OF RICE. WITH RICE OMITTED, THE INCREASE WAS 2.4 PERCENT. WITH OR WITHOUT RICE, AFTER ALLOWANCE FOR ONGOING INFLATION IN VIETNAM'S IMPORT PRICES, THE REAL LEVEL OF VIETNAM'S IMPORTS HAS CONTINUED TO DECLINE. AS CAN BE SEEN IN THE FOLLOWING DATA, GVN-FINANCED IMPORTS HAVE FALLEN SHARPLY EVEN IN MONEY TERMS. THE INCREASE IN CIP IMPORTS REFLECTS THE LATE ARRIVAL OF GOODS LONG DELAYED BY SUPPLY SHORTAGES.

IMPORT PAYMENTS, 1973-74

(MILLIONS)

	JAN AUG 73	JAN AUG 74	PERCENT INC.	
GVN	194	145	-25	
COP	176	240	36	
(POL)	(47)	(89)	(89)	
PL480	121	200	65	
(RICE)	(63)	(157)	(149)	
AID FREIGHT	24	35	46	
TOTAL	515	620	20	
TOTAL, EXCLUDING RICE		452	463	2

VIII. GVN POLICY MEASURES

VIRTUALLY ALL OF THE ECONOMIC MEASURES TAKEN DURING THE THIRD QUARTER WERE ANNOUNCED ON JULY 1. AS SUMMARIZED IN THE SECOND QTR ECON REVIEW THEY COMPRISED A FERTILIZER SUBSIDY, A PUBLIC SECTOR WAGE INCREASE, AN INCREASE IN THE OFFICIAL SELLING PRICE OF RICE, THE BANNING OF MOST NON-ESSENTIAL IMPORTS, AND AN INCREASE IN INTEREST RATES. THE EXCHANGERATE WAS MOVED FOUR TIMES DURING THE QTR -- FROM 620 TO 670 -- A DEVALUATION OF 8.1 LIMITED OFFICIAL USE

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PERCENT.

THE REMAINING MEASURES WERE IN EFFECT THROUGHOUT THE THIRD QTR, AND THEIR EFFECTS HAVE BEEN COMMENTED ON ELSEWHERE IN THIS REVIEW. DECON FOLG 10/23/75.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CERP 0003, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 25 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974SAIGON13625
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740305-0860
From: SAIGON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741016/aaaaamuc.tel
Line Count: 1083
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AID
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 20
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 01 MAY 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <01 MAY 2002 by boyleja>; APPROVED <12 MAR 2003 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CERP 0003 - THIRD QUARTER, 1974 ECONOMIC REVIEW I. GENERAL SITUATION AND TRENDS
TAGS: ECRP, VS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005